House Retiree Healthcare Reforms Committee
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The Michigan Public School Employee Retirement System and Its Impact on Michigan Public Universities:

A Short History, An Analysis of the Growing Financial Impact, and a Presentation of Possible Solutions For MPSERS Universities

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Seven public universities in the State have employees in the Michigan Public School Employee Retirement System (MPSERS). In understanding MPSERS, it is useful to look back at the history of its development. (See Attachment One)

In 1945, the Legislature adopted the Michigan Public School Employee's Retirement Act (MPSERS). Its purpose was to provide pension benefits (not health benefits) for former employees. From 1945 and over the next several years, it grew to include Michigan K-12 public schools, various Michigan community colleges and junior colleges, and seven of the fifteen public universities.

Of the universities in existence at the time of the adoption of MPSERS or shortly thereafter, the University of Michigan, Michigan State University, and Wayne State University were not mandated to participate in MPSERS. Participation was mandated at that time for the institutions which became Central Michigan University, Eastern Michigan University, Lake Superior State University, Michigan Technological University, Northern Michigan University, Western Michigan University, and Ferris State University (the MPSERS universities). Beginning with the University of Michigan-Flint, in 1956, all of the institutions that subsequently became public universities were not put into MPSERS – Oakland University, University of Michigan-Dearborn and -Flint, Grand Valley State University, and Saginaw Valley State University.

At the time of its adoption in 1945 until 1974, the State took full responsibility for the participation it mandated by fully funding the costs for MPSERS retirees and dependents. The definition provided at that time is extremely important for this discussion and quite clear about the state's obligation. The 1945 legislation defined the word "pension" as "annual payments for life derived from money provided by the State." A significant policy shift occurred in 1974 when the State assessed MPSERS universities, community/junior colleges, and public schools a portion (up to 9%) of the MPSERS costs. In 1975, in a decision that the state today refuses to fund, MPSERS was amended to include the cost for retiree health benefits to the MPSERS pension payments – a State-mandated change.

In the early 1990's the State transferred the full cost burden for MPSERS to the MPSERS entities. Public schools, as a result of Proposal A, received additional resources to support the full MPSERS costs, universities did not (other than a small amount in 1992-93 which was never sustained). In 1995, MPSERS universities expected help from legislation that excluded any new university employees hired after January 1, 1996 (unless they had previous MPSERS experience) from belonging to MPSERS. Nevertheless, with the passage of time, the relief that was expected to be provided by the legislation never materialized and contributions for unfunded liabilities continue to increase. Today the MPSERS universities are being asked to pay substantial unfunded liabilities accrued from when the State did not fully fund known obligations.

From 1974 to date, the legislature has increased benefits for MPSERS retirees, without input from the universities, and without recognition for the increased costs that would result. One of the strategies of MPSERS has been to reduce benefits for new members rather than to limit them for those already in the system. Since higher education is not adding additional members, taking this path of least resistance exacerbates rather than reduces our challenges. As a result, MPSERS costs to the universities have continued to skyrocket.

MPSERS assesses costs pursuant to three components:

1. **Pension Current or Normal Costs** – the monthly cash benefit earned by active employees. MPSERS assesses a percentage against the payroll of current MPSERS employees to provide sufficient funds to cover the cost attributed to the current year. This year (FY 2008) we estimate that percentage to be 5.84%.
2. **Unfunded Actuarial Accrued Pension Liability** – this is the amortization of the amount that MPSERS is short when comparing the present value of all earned or accrued benefits to the value of current assets. MPSERS assesses each university a percentage of payroll for current university MPSERS employees AND current university employees who would have been in MPSERS but for the January 1, 1996 legislation to exclude new hires from MPSERS. This year we estimate that contribution rate to be 8.79%.
3. **Current Costs for Retiree Health Benefits** - these are set out in actual dollars and are the projection of the year's costs for the health benefits provided to current retirees of the MPERS institutions.

Of the estimated $45 million the universities will pay into MPSERS this year, 55% will support retiree health costs, 26% unfunded liability, and 19% normal pension costs.

At our University we have capped retirement costs for all employees at no more than 12%. For our 470 MPSERS employees we currently pay over 32% of salary. While charges have not yet been received for next year we estimate that amount will continue to increase. Beyond that it is important to understand that we also pay a charge for our 473 employees who are not members of MPSERS, but would have been had new higher education employees not been added to the system beginning in 1996. We currently pay 8.8% for these employees, a rate that has quadrupled in three years. (See Attachment Two)

The rate of increase for MPSERS universities over the past three years is staggering. In 2005 total MPSERS costs were $32.9 million. This year, the MPSERS universities estimate they will pay over $45.2 million back to the State to support MPSERS costs, an increase of over 37%. Even more alarming is the staggering increase in unfunded liability from $3.6 to $15.8 million, an increase of 335% in just three years time. The simple reality is that MPSERS universities now return 9.7% of state appropriations they receive for this overburdened and underfunded retiree pension and healthcare plan. (See Attachment Three)

It is unlikely the State will address the problems of MPSERS and provide the relief higher education both needs and deserves. For FY 2007 this amount would be $42 million. However there are significant actions you can do that limit the debilitating impact of MPSERS. I urge you to consider the following –

1. Have MPSERS universities pay a fixed percentage annually into MPSERS and tie this to the same percentage as K-12 districts pay. The State continues to penalize higher education for not placing new employees in the MPSERS. This could be accomplished through two approaches.
    a. Include higher education with K-12 members in calculating annual contributions. This would blend these costs over all MPSERS entities, not just higher education.
    b. Provide a State appropriation that represents the difference between the fixed percentage K-12 pays into MPSERS and calculated university annual costs.
2. Eliminate the unfunded liability charge to the MPSERS Universities. This cost is clearly the responsibility of the State.
3. Recognize past employment impact on unfunded liability, pension, and retiree costs. Currently we pay full liability for employees that began in the K-12 system and moved to higher education.
4. Direct fund MPSERS costs from the State rather than sending these dollars to the universities and then back to the State. Under this approach university obligations for MPSERS payments would not be reduced by budget cuts from the State.

MPSERS is a State retirement system in which higher education has no representation and whose costs have become an unfair and unreasonable burden. At a time when much interest is placed upon taxes, this is a tax that the State of Michigan places upon us. The impact on our costs and our students is staggering. Today the annual cost to each full-time student at Ferris State University for state MPSERS costs is $731. In a time when higher education is looked to as the future of our State, it is truly unfortunate that Ferris State University and our six MPSERS sister institutions are forced to absorb and pay for the failure of the State to meet its financial obligations.

Copies of these materials are available on-line at
http://www.ferris.edu/president/MPSERS_2007.htm

The Michigan Public School Employees Retirement System
A MPSERS Timeline

1945 - Legislature adopted the Michigan Public School Employee's Retirement Act to provide pension benefits (not health benefits) for former employees. The 1945 legislation defined the word "pension" as "annual payments for life derived from money provided by the State." The State was responsible for fully funding the costs for MPSERS retirees and dependents.

- This grew to include Michigan K-12 public schools, Michigan community colleges, and seven public universities.
- The University of Michigan, Michigan State University, and Wayne State University were not mandated to participate in MPSERS.
- Participation was mandated for Central Michigan University, Eastern Michigan University, Lake Superior State University, Michigan Technological University, Northern Michigan University, Western Michigan University, and Ferris State University (the MPSERS universities).

1956 - Beginning with the University of Michigan-Flint, new public universities were not put into MPSERS – Oakland University, University of Michigan Dearborn and Flint, Grand Valley State University, and Saginaw Valley State University.

1974 - State assessed MPSERS universities, community colleges, and public schools a portion (up to 9%) of the MPSERS costs. From 1974 to date, benefits have increased and been extended for MPSERS retirees, without input from the universities, and without recognition for the increased costs that would result.

1975 – The State-mandated MPSERS to include the cost for retiree health benefits.

Early 1990's - State transferred the full cost burden for MPSERS to institutions.

- Public schools, as a result of Proposal A, received additional resources to support the full MPSERS costs
- Universities did not receive ongoing base resources.

1995- Legislation that excluded new university employees from belonging to MPSERS.

MPSERS assesses costs pursuant to three components:

1. **Current Pension Costs** – the monthly cash benefit earned by active employees, assessed against the payroll of current MPSERS employees
2. **Current Retiree Health Benefits Costs**
3. **Unfunded Accrued Pension Liability** – the amount MPSERS lacks when comparing the present benefits to current assets. MPSERS assesses a payroll percentage for current university MPSERS employees AND for current university employees who would have been in MPSERS but for the January 1, 1996 legislation to exclude them from MPSERS.

Of the estimated $45 million the universities will pay into MPSERS this year, 55 percent will support retiree health costs, 26% unfunded liability, and 19% normal pension costs.

Michigan Public School Employees Retirement System (MPSERS)
Ferris State University

Members

Year	% of Salary	Cost
2005	24.30%	$5,633,039
2006	27.70%	$5,764,422
2007	30.60%	$6,228,565
2008*	32.70%	$6,848,001

Non-Members

Year	% of Salary	Cost
2005	1.96%	$157,309
2006	3.10%	$264,236
2007	6.10%	$578,890
2008*	8.80%	$866,142

*Estimate

MPSERS Seven University Totals

Year	MPSERS Costs	Unfunded Liability	Percent of Costs
2005	$32,910,106	$3,630,270	11%
2006	$35,987,944	$5,607,153	16%
2007	$41,738,956	$10,986,797	26%
2008*	$45,278,149	$15,823,052	35%

State Funding Returned for MPSERS

Year	% of Appropriation
2005	7.50%
2006	8.60%
2007	9.70%

MPSERS Costs Per Student
Ferris State University

	Tuition to Pay MPSERS
Fiscal 2004-2005	$549
Fiscal 2005-2006	$577
Fiscal 2006-2007	$652
Fiscal 2007-2008 Projected	$731
Four-Year Increase	33%